

STATE OF NORTH CAROLINA
REQUEST FOR PROPOSALS

RFP # 001185



TITLE: PILOT PROGRAM FOR
STREAMLINED SALES TAX SYSTEM

USING AGENCY: North Carolina Department of Revenue

ISSUE DATE: June 16, 2000

ISSUING AGENCY: North Carolina Department of Administration
Division of Purchase and Contract
Location: 116 West Jones Street, room 4062
Raleigh NC 27603-8002
Mailing Address: Post Office Box 29582
Raleigh NC 27626-0582

Sealed Proposals subject to the conditions in this request will be received until
2:00 p.m. on July 17, 2000 for furnishing the services described in this RFP.

**SEND ALL PROPOSALS DIRECTLY TO THE ISSUING AGENCY ADDRESS
SHOWN ABOVE.**

IMPORTANT NOTE TO OFFERORS:

- Responses to this Request for Proposal must be submitted in a sealed envelope or package, clearly labeled with the offeror's name, RFP number, and opening date.

- Direct all inquiries concerning this RFP to:

Barbara Stone Newton
(addresses above)
919-733-4505, ext. 117
919-733-5037 (fax)
barbara.stonenewton@ncmail.net

NOTE: **A NON-MANDATORY PREPROPOSAL CONFERENCE** for all prospective Offerors is scheduled for Tuesday, June 27, 2000 at 2:00 PM in Room 605 of the Revenue Building, 501 North Wilmington Street, Raleigh, NC 27640. Attendance at this conference is *not* a prerequisite for consideration of an Offeror's proposal. Prospective Offerors are encouraged to submit written questions in advance. A summary of all questions and answers will be posted on the internet as an addendum, located under the RFP number. being modified.
It is the offeror's responsibility to assure that all addenda have been reviewed and, if required, signed and returned.

<http://www.state.nc.us/PandC/>

(go to IPS Bids)

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Part I. Purpose and Goals

The purpose of this Request for Proposal is to establish one or more Pilot tests of a key element of the proposed Streamlined Sales Tax System. The key element is the use of an agent to perform the sales tax administration functions of a retailer and thereby relieve the retailer of as much of the burden of compliance as possible. Sales tax administration functions include determination and calculation of the amount of tax due, collection of the tax, remittance of the tax, and filing reports of the tax.

The use of an agent is Model 1 of the business models envisioned under the Streamlined Sales Tax System. This model is described in the document in Appendix A titled Streamlined Sales Tax System, Business and Technology Models, and is shown in the diagram in Appendix B.

In the Pilot, Model 1 is to be tested in four states initially for a period of at least 12 months. The four initial states in the Pilot are North Carolina, Michigan, Wisconsin, and Kansas. North Carolina is the lead state for issuance of this RFP. When North Carolina awards a contract pursuant to this RFP, it is expected that the other three Pilot states will adopt the contract. In accordance with this RFP, other states may have the opportunity to join the Pilot six months after it begins.

Experience gained in the Pilot will be used to refine features of the Streamlined Sales Tax System for national application. It is expected that a Request for Proposal for the national System will be issued in about 9 to 12 months after the start of this Pilot. During the duration of this Pilot, other requests for proposal may be issued to test other models of the Streamlined Sales Tax System.

The goal of the Pilot is to demonstrate the feasibility of implementing Model 1 of the Business and Technology Models envisioned in the Streamlined Sales Tax System by determining the following:

- The extent to which technology can be used in Model 1 to create a simple sales and use tax collection system.
- The accuracy of tax calculation software.
- The costs of implementing Model 1.
- The ability to integrate tax calculation software in the order processing system of retailers without having an adverse effect on the length of time it takes to complete a transaction or on other aspects of that system.
- Any changes needed to Model 1 as a result of the experiences gained in the Pilot.

Part II. Background

The Streamlined Sales Tax System Project

The Streamlined Sales Tax System Project is a national project involving more than 35 states. Its purpose is to simplify and streamline the administration of state and local sales and use taxes for all retailers. The project is led by a steering committee composed of members of the participating states. The project maintains a website, www.streamlinedsalestax.org. Information about the project is available on that website.

The Law of the Pilot States

1. North Carolina. – North Carolina's sales and use tax laws are set out in Article 5 of Chapter 105 of the North Carolina General Statutes. The Sales and Use Tax Division of the North Carolina Department of Revenue administers the tax and has adopted administrative rules and issued Bulletins that further explain the laws. The sales and use tax rules are contained in 17 NCAC 7B and 7C. The sales and use tax bulletins are contained in a publication of the Department. The rules and bulletins are available on the Department's website, www.dor.state.nc.us, and can be obtained from the Division at 919-733-2151. You can address questions about the laws to Mr. Charles Collins, the Director of the Division. He can be reached at the telephone number given for the Division.

In summary, North Carolina imposes State sales and use taxes on tangible personal property and a few services at the general rate of 4%. In addition, all one hundred counties in the State have the authority to levy 2% local sales and use taxes, and Mecklenburg County has the authority to levy 2 1/2% local sales and use taxes. The counties have all exercised their authority. The result is that the combined Statewide sales and use tax rate is 6% in all counties except Mecklenburg County and is 6 1/2% in Mecklenburg County. The North Carolina Department of Revenue collects local sales and use taxes on behalf of the county taxing jurisdictions.

The tax base of the counties is identical to that of the 4% State base with one exception. That exception is for some food. Food that can be purchased with food stamps is exempt from the State 4% tax but is subject to the local 2% tax. Food is not subject to the extra 1/2% tax in Mecklenburg County.

A retailer that has nexus in North Carolina is subject to all the State and local sales and use tax laws and must collect and remit at the two different rates and must source its sales based on the county of collection. A retailer that does not have nexus in North Carolina but voluntarily collects the use tax is allowed to collect at the uniform rate of 6% and does not have to source sales to the county of collection. In the Pilot, the application of North Carolina state and local sales and use taxes to sales made by a retailer will follow this distinction. Thus, collection and reporting for retailers that do not have nexus will be simpler than for those that have nexus.

North Carolina does not have a merchant's discount for collecting sales and use taxes.

2 Michigan. – Michigan's sales and use tax laws are contained in MCL 205. 51; MSA 7.521, *et. seq.* and MCL 205.91; MSA 7.555(1), *et. seq.* Statutes governing the

administration and procedure of the sales and use tax acts are contained both in the respective tax acts and in the Revenue Act, MCL 205.1; MSA 7657 (1). The Bureau of Revenue has adopted administrative rules, 1979 AC R 205.1, *et. seq.* and issued interpretative Letter Rulings and Revenue Administrative Bulletins. Current versions of the statutes, the administrative rules and statements, tax forms, and some court decisions can be obtained at the Department of Treasury's website, www.treas.state.mi.us. The Sales, Use and Withholding Taxes Division of the Bureau of Revenue administers Michigan's sales and use taxes.

The state is the only jurisdiction within Michigan that has the constitutional authority to impose and collect sales and use tax. Counties and local governments do not have the authority to impose sales or use taxes. The tax rate is 6%. The Bureau has provided nexus guidelines for the collection of use tax in RAB 1999-1. RAB 1999-1 provides that once a seller has sufficient contact with Michigan to establish nexus, the seller will have nexus for the remainder of the month and the following 11 months.

Michigan's sales tax is imposed on sellers that are in the business of making sales of tangible personal property at retail in the state. With the exception of the repair and maintenance of tangible personal property owned by others, Michigan's sales tax laws do not permit the state to split a single transaction involving both sales and services into taxable transfers of tangible personal property and nontaxable services. The Bureau of Revenue utilizes the "real object" test to determine whether a "mixed" transaction should be taxed as a sale or not taxed because the "real object" of the transaction is a service.

A use tax applies to the use, storage, or consumption of tangible personal property in the state as well as lease and rental receipts and a limited range of services, such as certain telecommunications, hotel and motel accommodations, and laundering services. Though the use tax is imposed on purchasers, the Use Tax Act requires sellers to collect the use tax from purchasers.

Michigan allows a vendor's discount for early remittance of sales and use taxes. It also allows taxpayers to remit payments by EFT, either by ACH debit or credit. Taxpayers utilizing EFT remittance must agree to transmit on a monthly basis. Certain approved taxpayers are permitted to accrue and pay use taxes under a direct pay permit.

3. **Wisconsin.** - Wisconsin's state and local sales and use tax laws are set out in Subchapters III and V of Chapter 77 of the Wisconsin Statutes. The Income, Sales, and Excise Tax Division of the Wisconsin Department of Revenue administers the tax and has adopted administrative rules and issued publications, tax releases, and private letter rulings that further explain the laws. The sales and use tax rules are contained in Chapter Tax 11 of the Wisconsin Administrative Code. The rules are available at the Revisor of Statutes website at www.legis.state.wi.us/rsb/code/tax/tax011.pdf. Wisconsin sales and use tax publications and *Wisconsin Tax Bulletins* containing tax releases and private letter rulings can be found on the department's website at www.dor.state.wi.us/html/pubs.html or are available from the department by calling (608) 266-1961. You can address questions

about the laws to Ms. Vicki Gibbons at (608) 266-3873.

In summary, Wisconsin imposes State sales and use taxes on tangible personal property and on a small number of services at the general rate of 5%. In addition, 53 of the 72 counties in Wisconsin have the authority to levy 1/2% local sales and use taxes, and 5 of the 72 counties have the authority to levy 1/10% local sales and use taxes. Some counties are in both groups. The Department of Revenue administers the local taxes. The result is that the combined statewide sales and use tax rates are 5%, 5.1%, 5.5%, or 5.6% depending on the county where the sale takes place. The tax base of the counties is identical to that of the 5% State base.

A retailer that has nexus in Wisconsin, and in counties which have adopted a local tax, is subject to the state and local tax laws, must collect and remit at the different rates, and must source its sales based on the county where the sales take place. A retailer that does not have nexus in Wisconsin but voluntarily collects the use tax must also collect and remit at the different rates and must source its sales based on the county where the sales take place.

Wisconsin has a retailer's discount. The discount is 0.5% of the sales and use tax payable on retail sales, with a minimum of \$10.

4. Kansas. - Kansas sales and use tax laws are set out in Chapter 79, Articles 36 & 37, of the Kansas Statutes Annotated. Some additional laws that govern sales and use tax laws are set out in Chapter 12, Article 1, of the Kansas Statutes Annotated. The Secretary of Revenue administers the sales and use tax laws, including the local sales and use tax laws. The Department has adopted administrative regulations and issued notices and rulings that further explain the laws. The regulations are contained in Chapter 92, Articles 19, 20, & 21, of the Kansas Administrative Regulations. Kansas sales and use tax statutes, administrative regulations, notices, rulings, and other publications are available on the Department's website, www.ink.org/public/kdor, and can be obtained from the Department at 1-877-526-7738. You can address questions about the laws to Mr. Tom Hatten at (785) 296-3081.

Kansas imposes state sales and use taxes at the rate of 4.9% on the sale, rental, or lease of tangible personal property, certain enumerated labor services, certain utility services, and certain membership and admission charges. In addition, counties and cities in Kansas are authorized by statute to levy local sales and use tax, generally in increments of one-fourth of one percent. Local taxes result in combined statewide sales and use tax rates of from 4.9% up to 7.65%. While the tax base for local sales tax is virtually identical to the tax base for the state tax (with utilities being an exception), the local use tax applies only to motor vehicles and boats. This means that the general use tax rate for Kansas is 4.9%. Most use tax due on motor vehicles or boats is paid to the county treasurer by the owner at the time of registration.

Out-of-state retailers that have nexus, and out-of-state retailers that do not have nexus but

voluntarily collect the use tax, must collect tax at the rate of 4.9%. Kansas does not have a merchant's discount for collecting tax, but the Secretary of Revenue has negotiated agreements with certain other states that allow reciprocal merchant's discounts. The Secretary of Revenue is authorized, under K.S.A. 79-3704(c) to enter into agreements with other states when necessary for the collection, payment, and enforcement of use tax.

Part III. Contract Period

The contract period begins on the date the contract is awarded and extends until the earlier of the following:

- October 1, 2001.
- The date the permanent Streamlined Sales Tax System becomes effective.

A contract awarded under this request can be extended at the option of the Issuing Agency for two six-month periods. The purpose of this option is to ensure that there is no gap between this Pilot and the permanent System. To exercise this option, the Issuing Agency must give the Contractor written notice that it is exercising the extension option at least one month before the contract period would otherwise end.

An extension applies only for a six-month period. If the Issuing Agency extends the contract period for six months and then wants to extend the contract another six months, the Issuing Agency must give the Contractor written notice of the extension at least one month before the end of the first six-month extension.

Before the permanent System takes effect, another Request for Proposal must be issued for Contractors for that System. The states hope that a permanent system can be in effect October 1, 2001.

Part IV. Procurement Process

Schedule

RFP Issued	June 16, 2000
Submission of Written Questions for Conference	June 23, 2000
Non-mandatory Preproposal Conference	June 27, 2000
Answers to Questions Posted	July 7, 2000
Proposal Due Date	July 17, 2000
Review by Evaluation Committee	July 17 – Early Aug. 2000,
Contract Award(s)	Early or Mid August, 2000
Early October, 2000	Pilot Test Begins

Submission of Proposals

When submitting a proposal, one original and three copies must be included. The proposal must be submitted in a sealed envelope or package as described on the cover sheet of this RFP. The original must be signed and dated by an official authorized to bind the firm. The proposal must be received by the Issuing Agency not later than the date and time specified on the cover sheet of this RFP.

Opening of Proposals

At the date and time a proposal is due, each envelope or package containing a proposal from an Offeror will be opened publicly and the name of the offeror and the costs offered will be announced. Interested parties are cautioned that these costs and their components are subject to further evaluation for completeness and correctness and therefore may not be an exact indicator of an Offeror's pricing position.

Award of a contract to one Offeror does not mean that the other proposals lacked merit, but that, all factors considered, the selected proposal was deemed to provide the best value to the State.

Evaluation Committee

All qualified proposals will be evaluated by an Evaluation Committee. Proposals will be evaluated according to completeness, content, experience with similar projects, ability of the Offeror and its staff, and cost

The Evaluation Committee will consist of one or more representatives from each of the four Pilot States and a representative of the North Carolina Division of Purchase and Contract in the Department of Administration. Volunteers from the Technology, Audit, Privacy, and Payment Workgroup of the Streamlined Sales Tax System Project or from national organizations that represent states, such as the Federation of Tax Administrators or the Multistate Tax Commission, may join the Evaluation Committee.

The Evaluation Committee will make recommendations to the Issuing Agency on the award of a contract. The Issuing Agency makes the decision on an award and has the discretion to accept or reject a recommendation of the Evaluation Committee.

Discussion and Demonstrations

As part of the evaluation process, the State or the Evaluation Committee may want to ask an Offeror questions or ask for a demonstration of a product identified for use by the Offeror. The Offeror must have one or more individuals available to answer questions within a reasonable time. Upon a week's notice, an Offeror must be able to provide a demonstration of a product it intends to use if awarded the contract. The demonstration must be conducted at the location set by the Using Agency after consultation with the Offeror.

Offerors are cautioned that the Evaluation Committee is not required to ask questions for clarification or ask for a demonstration of a product. Therefore, all proposals should be complete and reflect the most favorable terms available from the Offeror.

Awards

More than one award can and, hopefully, will be made pursuant to this request. An award will be made to any Offeror that has established in its proposal that it has the capability, either by itself or through available partnering with others of demonstrated abilities, to provide the services required to conduct the Pilot on the terms and conditions set in the RFP. All awards will be made at the same time and, after the initial awards, no other awards will be made.

When an award is made, the State will designate an individual as the State Contact for the Pilot. Questions about implementation of the Pilot should be addressed to the State Contact. The State Contact will be an individual at the North Carolina Department of Revenue.

Offerors are cautioned that this is a request for offers, not a request to contract. The State reserves the unqualified right to reject any and all offers when the rejection is deemed to be in the best interest of the State.

Part V. Technical and Cost Content for Proposal

General

A proposal must establish a method of demonstrating the feasibility of Model 1 of the Streamlined Sales Tax System. The State requires that at least one test of the Model be a "live" test. A "live" test entails the actual collection, remittance, and reporting of sales and use taxes from participating retailers starting in October, 2000. For the "live" test, the State prefers that the participating retailers include a retailer with remote sales, such as an on-line retailer or a mail-order retailer. The number of participating retailers is open. The State anticipates the number will range initially from just a few to possibly 25 or more.

In addition to one or more "live" tests, the State is open to considering secondary methods and proofs of concept that test the Model but do not result in the actual collection, remittance, and reporting of taxes. The State is also open to considering proposals that make modifications to the Model yet continue to achieve the goal of demonstrating the feasibility of a system that uses technology to provide a simple system for collecting sales and use taxes. A proposal that modifies the Model must indicate the changes and explain the reasons for the changes.

The State encourages innovation and new ideas and requires flexibility. A proposal must allow for adjustment during the course of the Pilot to correct any problems that are encountered or to make improvements.

Specific Features

The features listed in this section of the RFP are included in the Pilot for testing purposes. They may or may not be a feature of the Permanent System. Their inclusion depends on the experience gained in the Pilot. A proposal that does not adequately describe one or more of the specified features will be considered non-responsive and reason, by itself, for denial of any award.

Central Registration of Retailers. -- The proposal must include a central registration procedure whereby a retailer that registers with the Contractor becomes registered with each of the states in the Pilot in which the retailer makes sales. The states are currently working on a central registration process. The method in the proposal must be compatible with the states' efforts.

Tax Calculation. -- Tax calculation consists of determining whether a product or service is taxable when purchased by a specific buyer and the rate of tax that applies to the sale of the product to the specific buyer. To make this calculation, it is critical to identify the tax jurisdiction in which a transaction is taxable and to have accurately categorized the item that is purchased. These determinations must be made in accordance with the laws of the Pilot states with the following exceptions; these exceptions apply to retailers that have nexus with a Pilot state as well as those that do not have nexus:

- Uniform Sourcing. -- The determination of tax due on a transaction involving tangible personal property is based on ship-to address. The determination of tax due on a

transaction involving a service is based on billing address. The determination of tax due on a transaction involving digital products is based on billing address.

- Exemption Processing. -- To determine when a product purchased by a specific person, such as a state agency or a nonprofit organization, is exempt, a Contractor must check any exemption number issued to the purchaser by the state. The states expect to give the Contractor the name and address of exempt purchasers and their exemption numbers, to be incorporated into an exempt database. This database will be used to verify the validity of the exemption claimed. If the states do not provide a database, a Contractor must simply keep a record of transactions in which no tax was collected. The states must receive a report listing all transactions on which an exemption was claimed. Any "good faith" requirement imposed on a retailer in a transaction involving an exempt purchaser does not apply, and the purchaser rather than the retailer is liable when the purchaser is not eligible for the exemption.
- Uniform Rounding. -- The 5/4 rule of rounding applies. Under this method, numbers 5 or greater round up, and numbers less than 5 round down. Use 3 digits for rounding purposes.
- Effective Date of Rate Changes. - The designated State Contact must give the Contractor sixty days' written notice of a change in a tax rate in a jurisdiction. Tax is not collectible under the Pilot at the changed rate until sixty days after the notice is given, unless the Contractor agrees to implement the change sooner. The effective date of a rate change must be the first day of a month.

Tax Collection. -- Tax collection consists of collecting the amount of tax due on a transaction and holding it in trust for subsequent remittance to the appropriate state. The laws of the Pilot states apply with the following exceptions; these exceptions apply to retailers that have nexus with a Pilot state as well as those that do not have nexus:

- At the discretion of a Pilot state, amounts collected by the Contractor must be deposited in a financial institution that is a depository of the State.
- Any collection allowance allowed a retailer for collecting tax is superseded by the provisions of the cost proposal and will not be paid to the retailer.
- Tax paid by a retailer but not recovered from a customer because the customer did not pay the retailer and thereby created a bad debt is to be subtracted from the retailer's liability when the debt has become worthless and uncollectible under Section 166 of the Internal Revenue Code.

Tax Remittance. -- Tax remittance consists of sending the amount of tax collected to the appropriate states on a periodic basis. The laws of the Pilot states apply with the following exceptions; these exceptions apply to retailers that have nexus with a Pilot state as well as those that do not have nexus:

- Remittance will be made only to a state and not to a local jurisdiction.
- Remittance must be by electronic funds transfer in accordance with a method acceptable to each state.
- Remittance must be made to each state in accordance with a remittance schedule that will be established jointly by the Pilot states in consultation with each Contractor to whom an award is made. The Pilot states will set the schedule within two weeks after an award is made. The schedule set for a Contractor will be uniform for the Pilot states.

- A remittance will be required at least once a month and perhaps as frequently as daily. This proposal does not set a remittance schedule because the frequency of remittance can be a factor in a cost proposal. A proposal must recommend a remittance schedule, such as daily, every three days, monthly, or another interval.

Tax Reporting. -- Tax reporting consists of filing periodic tax returns for the amounts collected with the appropriate states and providing other information requested by the Pilot states. The laws of the Pilot states apply with the following exceptions; these exceptions apply to retailers that have nexus with a Pilot state as well as those that do not have nexus:

- Tax returns must be filed monthly with each state.
- Reports that are not tax returns must be filed within a reasonable time after receipt of a request.
- All tax returns must be filed electronically and, unless otherwise specified by a state, all other reports must be filed electronically in accordance with the method specified by a state.

The Pilot states will endeavor to establish a uniform tax return to use to report the tax collected. The Contractor must be prepared, however, to file tax returns in each state on forms used by retailers in that state.

Record Retention. – The Contractor must maintain records of the transactions processed as part of the Pilot. The records must be kept for one year after the end of the Pilot and must be made available to the State during that period.

Audits. -- The Contractor must agree that it is subject to the jurisdiction of the State and that it is subject to audit by the State. Regardless of the number of states in the Pilot, an audit will be conducted by only one of the states on behalf of all states in the Pilot.

Retailer Participation. – A “live” test of Model 1 of the Streamlined Sales Tax System cannot be successful without participation by retailers. A proposal must include identification of any retailers that have agreed, at least tentatively, to participate in the Pilot as well as a plan for obtaining additional participation by retailers. The State recognizes that participation by a retailer in the Pilot will not be used by the State as a factor in determining whether or not the retailer has nexus with the State. For a participating retailer that does not have nexus with the State, the State agrees that no audit of the retailer will be conducted on the transactions processed as part of the Pilot.

It is anticipated that an Offeror may begin with a few retailers and add retailers as the Pilot progresses. This approach ensures that Model 1 is working before it is migrated to a large number of retailers.

Integration with Retailer. – Successful implementation of a “live” test of Model 1 requires tax calculation software to be integrated into the sales process of participating retailers and to correctly apply the tax to the specific products of the retailer. The proposal must describe how this integration will be accomplished.

Testing -- Several types of tests are required. One type is a test of tax calculation software that will be used. Before a test is implemented in the Pilot, the Contractor must give the State an opportunity to test the tax software for accuracy. The proposal must describe how and when this testing can be done and the length of time it will take.

Another type of test is a performance test of the system when it is operating. The State must be able to determine if the system is functioning properly. The proposal must therefore include a method of conducting a performance test and an explanation of what the State will know when the test is conducted. The test must include a method for determining the accuracy of tax calculation software, a method for determining if the system has been properly integrated into the billing functions of a retailer, and a method for determining whether all the transactions of the retailer are being processed through the system.

Availability. -- The proposal must include procedures that ensure that a tax collection system is available for use at all times and steps that will be taken if the system is not available. The steps must indicate what assurances the Contractor can give the State that all taxes due the State will be collected and remitted if the system is unavailable for a period of time.

Assessment. -- At the request of the designated State Contact, the Contractor must provide the State a written assessment of the progress of the Pilot at six-month intervals. The assessment must include any recommended changes.

Standards. -- For the Permanent System, the State must certify both software and 3rd party tax service providers. A proposal must address the type of assistance, if any, the Offeror can provide to the State to enable the State to develop the evaluation standards needed to make these certifications. It must also include recommendations on what standards to apply to a performance evaluation of all operations of the Pilot.

Privacy. -- A proposal must include procedures to protect the privacy of consumers and retailers in accordance with the following:

- The Contractor is bound by the law of North Carolina prohibiting the disclosure of tax information.
- The Contractor must limit the collection, storage, processing, and dissemination of personal data to that which is relevant and necessary to the successful operation of the Pilot. Personal data is data that identifies a purchaser, such as name and address.
- The Contractor may not data-mine or sell any personal data gathered under the Pilot and, except as required by the State to administer sales and use tax, may not transfer any personal data gathered under the Pilot to any other person.
- The Contractor must provide reasonable safeguards against the risk of unauthorized access, processing, or dissemination of personal data.
- The Contractor must provide a privacy notice for any on-line collection and must have a procedure whereby individuals can obtain and correct personal data about them that is maintained by the Contractor.

Cost. – The Offeror must propose a basis of compensation. This can be a per transaction amount, a percentage of revenue collected amount, a combination of these, or some other calculation. The proposal must list the costs involved that are to be recovered by the compensation

As a condition of an award, the Contractor must agree to analyze and share with the State all cost data of any kind possessed by the Contractor. This includes costs required for the integration of tax calculation software into the purchasing process as well as the “mapping” of a retailer’s products to the software.

Addition of More States to Pilot

It is anticipated that more states may want to join the Pilot when a test under the Pilot gets underway. A proposal must be able to add a state after two months’ written notice from the Issuing Agency. No more than two states can be added at the same time without the consent of the Contractor. The Issuing Agency cannot add a state until April 1, 2001. The addition of a state must become effective at the beginning of a month.

Part VI. Proposal Format

The response to this request must consist of the following sections and must be submitted in a format that, at the option of the State, may be incorporated into a contract:

I. Corporate Background and Experience

This section must include background information on the Offeror and must give details of experience with similar projects or other information that demonstrates that the Offeror is qualified to perform the Pilot. A list of three references for whom similar work has been performed must be included. The list of references must include the names of contact persons and their telephone numbers.

II. Financial Statement

This section must contain the Offeror's most recent audited financial statement or other evidence of financial stability.

III. Project Staffing and Organization

This section must include the following:

- The name, address, and telephone number of a person with authority to bind the Offeror.
- The name, address, and telephone number of a person who can answer questions or provide clarification concerning the Offeror's proposal. This is the person the State will call to arrange a demonstration of the Offeror's products, if the State chooses to review a demonstration.
- A description of the proposed staffing and deployment of personnel to be assigned to the Pilot. This must include information about the qualifications and experience of all key personnel to be assigned to the Pilot.

IV. Technical Approach and Cost Proposal

This section must include a description of the Offeror's proposal to test Model 1 of the Streamlined Sales Tax System. The description must establish how the Offeror will address each of the features listed under Part IV of this request, Proposal Content.

V. Execution of Proposal

This section must include a signed Execution of Proposal. Appendix C of this request contains a blank Execution of Proposal form.

Part VII. General Information on Submitting Proposals

The information in this Part is the standard information that is provided for all RFPs made by the State for contractual services.

1. **EXCEPTIONS:** All proposals are subject to the terms and conditions outlined herein. All responses shall be controlled by such terms and conditions and the submission of other terms and conditions, price lists, catalogs, and/or other documents as part of an Offeror's response will be waived and have no effect either on this Request for Proposals or on any contract that may be awarded resulting from this solicitation.
Offeror specifically agrees to the conditions set forth in the above paragraph by signature to the proposal.
2. **COMPETITIVE OFFER:** Pursuant to the provision of G.S. 143-54, and under penalty of perjury, the signer of any proposal submitted in response to this RFP thereby certifies that this proposal has not been arrived at collusively or otherwise in violation of either Federal or North Carolina antitrust laws.
3. **ORAL EXPLANATIONS:** The State shall not be bound by oral explanations or instructions given at any time during the competitive process or after award.
4. **REFERENCE TO OTHER DATA:** Only information which is received in response to this RFP will be evaluated; reference to information previously submitted shall not be evaluated.
5. **ELABORATE PROPOSALS:** Elaborate proposals in the form of brochures or other presentations beyond that necessary to present a complete and effective proposal are not desired.

In an effort to support the sustainability efforts of the State of North Carolina we solicit your cooperation in this effort.

It is desirable that all responses meet the following requirements:

- All copies are printed **double sided**.
- All submittals and copies are printed on **recycled paper with a minimum post-consumer content of 30%** and indicate this information accordingly on the response.
- Unless absolutely necessary, all proposals and copies should **minimize or eliminate use of non-recyclable or non re-usable materials** such as plastic report covers, plastic dividers, vinyl sleeves, and GBC binding. Three-ringed binders, glued materials, paper clips, and staples are acceptable.
- Materials should be submitted in a format which allows for **easy removal and recycling** of paper materials.

6. **COST FOR PROPOSAL PREPARATION:** Any costs incurred by Offerors in preparing or submitting offers are the Offerors' sole responsibility; the State of North Carolina will not reimburse any Offeror for any costs incurred prior to award.
7. **TIME FOR ACCEPTANCE:** Each proposal shall state that it is a firm offer which may be accepted within a period of ninety (90) days. Although the contract is expected to be awarded prior to that time, the 90-day period is requested to allow for unforeseen delays.
8. **TITLES:** Titles and headings in this RFP and any subsequent contract are for convenience only and shall have no binding force or effect.
9. **CONFIDENTIALITY OF PROPOSALS:** In submitting its proposal the Offeror agrees not to discuss or otherwise reveal the contents of the proposal to any source outside of the using or issuing agency, government or private, until after the award of the contract. Offerors not in compliance with this provision may be disqualified, at the option of the State, from contract award. Only discussions authorized by the issuing agency are exempt from this provision.
10. **RIGHT TO SUBMITTED MATERIAL:** All responses, inquiries, or correspondence relating to or in reference to the RFP, and all other reports, charts, displays, schedules, exhibits, and other documentation submitted by the Offerors shall become the property of the State when received.
11. **OFFEROR'S REPRESENTATIVE:** Each Offeror shall submit with its proposal the name, address, and telephone number of the person(s) with authority to bind the firm and answer questions or provide clarification concerning the firm's proposal.
12. **SUBCONTRACTING:** Offerors may propose to subcontract portions of the work provided that their proposals clearly indicate what work they plan to subcontract and to whom and that all information required about the prime contractor is also included for each proposed subcontractor.
13. **PROPRIETARY INFORMATION:** Trade secrets or similar proprietary data which the Offeror does not wish disclosed to other than personnel involved in the evaluation or contract administration will be kept confidential to the extent permitted by NCAC T01:05B.1501 and G.S. 132-1.3 if identified as follows: Each page shall be identified in boldface at the top and bottom as "CONFIDENTIAL". Any section of the proposal which is to remain confidential shall also be so marked in boldface on the title page of that section. Cost information may not be deemed confidential. In spite of what is labeled as confidential, the determination as to whether or not it is shall be determined by North Carolina law.

14. HISTORICALLY UNDERUTILIZED BUSINESSES: Pursuant to General Statute 143-48 and Executive Order #150, the State invites and encourages participation in this procurement process by businesses owned by minorities, women, disabled, disabled business enterprises and non-profit work centers for the blind and severely disabled.

15. PROTEST PROCEDURES:

When an Offeror wants to protest a contract awarded pursuant to this solicitation, that is over \$10,000.00, they must submit a written request to the State Purchasing Officer, Division of Purchase and Contract, 116 West Jones Street, P.O. Box 29582, Raleigh, NC 27626-0582. This request must be received by the Division of Purchase and Contract within thirty (30) consecutive calendar days from the date of the contract award, and must contain specific sound reasons and any supporting documentation for the protest. NOTE: Contract award notices are sent only to those actually awarded contracts, and not to every person or firm responding to this solicitation. Contract status and award notices are posted on the internet at <http://www.state.nc.us/pandc/>. Offerors may call (*agency's phone number*) to obtain a verbal status of contract award. All protests will be handled pursuant to the North Carolina Administrative Code, Title 1, Department of Administration, Chapter 5, Purchase and Contract, Section 5B.1519.

16. TABULATIONS: The Division has implemented an Interactive Purchasing System (IPS) that allows the public to retrieve bid tabulations electronically from our Internet web site: < <http://www.state.nc.us/pandc/> >. Click on the IPS BIDS icon, click on Search for Bid, enter the RFP number, and then search. Tabulations will normally be available at this web site not later than one working day after opening. Lengthy tabulations may not be available on the Internet, and requests for these verbally or in writing cannot be honored.

17. VENDOR REGISTRATION AND SOLICITATION NOTIFICATION SYSTEM: Vendor Link NC allows vendors to electronically register free with the State to receive electronic notification of current procurement opportunities for goods and services available on the Interactive Purchasing System. Online registration and other purchasing information are available on our Internet web site: < <http://www.state.nc.us/pandc/> >.

Part VIII. Standard Contract Terms and Conditions

The following terms and conditions apply to a contract awarded pursuant to this RFP. These terms and conditions are the standard terms and conditions that apply to all North Carolina contracts for contractual services.

1. **GOVERNING LAW:** This contract is made under and shall be governed and construed in accordance with the laws of the State of North Carolina.
2. **SITUS:** The place of this contract, its situs and forum, shall be North Carolina , where all matters, whether sounding in contract or tort, relating to its validity, construction, interpretation and enforcement shall be determined
3. **INDEPENDENT CONTRACTOR:** The Contractor shall be considered to be an independent contractor and as such shall be wholly responsible for the work to be performed and for the supervision of its employees. The Contractor represents that it has, or will secure at its own expense, all personnel required in performing the services under this agreement. Such employees shall not be employees of, or have any individual contractual relationship with the Agency.
4. **KEY PERSONNEL:** The Contractor shall not substitute key personnel assigned to the performance of this contract without prior written approval by the Agency's Contract Administrator. The individuals designated as key personnel for purposes of this contract are those specified in the Contractor's proposal.
5. **SUBCONTRACTING:** Work proposed to be performed under this contract by the Contractor or its employees shall not be subcontracted without prior written approval of the Agency's Contract Administrator. Acceptance of an offeror's proposal shall include any subcontractor(s) specified therein.
6. **PERFORMANCE AND DEFAULT:** If, through any cause, the Contractor shall fail to fulfill in timely and proper manner the obligations under this agreement, the Agency shall thereupon have the right to terminate this contract by giving written notice to the Contractor and specifying the effective date thereof. In that event, all finished or unfinished deliverable items under this contract prepared by the Contractor shall, at the option of the Agency, become its property, and the Contractor shall be entitled to receive just and equitable compensation for any satisfactory work completed on such materials. Notwithstanding, the Contractor shall not be relieved of liability to the Agency for damages sustained by the Agency by virtue of any breach of this agreement, and the Agency may withhold any payment due the Contractor for the purpose of setoff until such time as the exact amount of damages due the Agency from such breach can be determined.

In case of default by the Contractor, the State may procure the services from other sources and hold the Contractor responsible for any excess cost occasioned thereby. The State reserves the right to require performance bond or other acceptable alternative

guarantees from successful offeror without expense to the State.

Upon the entering of a judgment of bankruptcy of insolvency by or against the Contractor, the Agency may terminate this contract for cause.

Neither party shall be deemed to be in default of its obligations hereunder if and so long as it is prevented from performing such obligations by any act of war, hostile foreign action, nuclear explosion, riot, strikes, civil insurrection, earthquake, hurricane, tornado, or other catastrophic natural event or act of God.

7. **TERMINATION:** The Agency may terminate this agreement at any time by 30 days notice in writing from the Agency to the Contractor. In that event, all finished or unfinished deliverable items prepared by the Contractor under this contract shall, at the option of the Agency, become its property. If the contract is terminated by the Agency as provided herein, the Contractor shall be paid for services satisfactorily completed, less payment or compensation previously made.
8. **AVAILABILITY OF FUNDS:** Any and all payments to the Contractor are dependent upon and subject to the availability of funds to the Agency for the purpose set forth in this agreement.
9. **CONFIDENTIALITY:** Any information, data, instruments, documents, studies or reports given to or prepared or assembled by the Contractor under this agreement shall be kept as confidential and not divulged or made available to any individual or organization without the prior written approval of the Agency.
10. **CARE OF PROPERTY:** The Contractor agrees that it shall be responsible for the proper custody and care of any property furnished it for use in connection with the performance of this contract or purchased by it for this contract and will reimburse the State for loss of damage of such property.
11. **COPYRIGHT:** No deliverable items produced in whole or in part under this agreement shall be the subject of an application for copyright by or on behalf of the Contractor.
12. **ACCESS TO PERSONS AND RECORDS:** The State Auditor shall have access to persons and records as a result of all contracts or grants entered into by State agencies or political subdivisions in accordance with General Statute 147-64.7.
The Contractor shall retain all records for a period of three years following completion of the contract.
13. **ASSIGNMENT:** No assignment of the Contractor's obligations nor the Contractor's right to receive payment hereunder shall be permitted. However, upon written request approved by the issuing purchasing authority, the State may:
 - a. Forward the contractor's payment check(s) directly to any person or entity designated by the Contractor, or
 - b. Include any person or entity designated by Contractor as a joint payee on the

Contractor's payment check(s).

In no event shall such approval and action obligate the State to anyone other than the Contractor and the Contractor shall remain responsible for fulfillment of all contract obligations.

14. **COMPLIANCE WITH LAWS:** The Contractor shall comply with all laws, ordinances, codes, rules, regulations, and licensing requirements that are applicable to the conduct of its business, including those of federal, state, and local agencies having jurisdiction and/or authority.
15. **AFFIRMATIVE ACTION:** The Contractor shall take affirmative action in complying with all Federal and State requirements concerning fair employment and employment of people with disabilities, and concerning the treatment of all employees without regard to discrimination by reason of race, color, religion, sex, national origin, or disability.
16. **INSURANCE:** During the term of the contract, the contractor at its sole cost and expense shall provide commercial insurance of such type and with such terms and limits as may be reasonably associated with the contract. As a minimum, the contractor shall provide and maintain the following coverage and limits:
 - a. Worker's Compensation - The contractor shall provide and maintain Worker's Compensation Insurance, as required by the laws of North Carolina, as well as employer's liability coverage with minimum limits of \$150,000.00, covering all of Contractor's employees who are engaged in any work under the contract. If any work is subcontracted, the contractor shall require the subcontractor to provide the same coverage for any of its employees engaged in any work under the contract.
 - b. Commercial General Liability - General Liability Coverage on a Comprehensive Broad Form on an occurrence basis in the minimum amount of \$500,000.00 Combined Single Limit. (Defense cost shall be in excess of the limit of liability.
 - c. Automobile - Automobile Liability Insurance, to include liability coverage, covering all owned, hired and non-owned vehicles, used in connection with the contract. The minimum combined single limit shall be \$150,000.00 bodily injury and property damage; \$150,000.00 uninsured/under insured motorist; and \$1,000.00 medical payment.

Providing and maintaining adequate insurance coverage is a material obligation of the contractor and is of the essence of this contract. All such insurance shall meet all laws of the State of North Carolina. Such insurance coverage shall be obtained from companies that are authorized to provide such coverage and that are authorized by the Commissioner of Insurance to do business in North Carolina. The contractor shall at all times comply with the terms of such insurance policies, and all requirements of the insurer under any such insurance policies, except as they may conflict with existing North Carolina laws or this contract. The limits of coverage under each insurance policy maintained by the contractor shall not be interpreted as limiting the contractor's liability and obligations under the contract.

17. **ADVERTISING:** Contractor agrees not to use the existence of this contract, the name of the agency, or the name of the State of North Carolina as part of any commercial advertising.

18. **ENTIRE AGREEMENT:** This contract and any documents incorporated specifically by reference represent the entire agreement between the parties and supersede all prior oral or written statements or agreements. This Request for Proposals, any addenda thereto, and the offeror's proposal are incorporated herein by reference as though set forth verbatim.

All promises, requirements, terms, conditions, provisions, representations, guarantees, and warranties contained herein shall survive the contract expiration or termination date unless specifically provided otherwise herein, or unless superseded by applicable Federal or State statutes of limitation.

19. **AMENDMENTS:** This contract may be amended only by written amendments duly executed by the Agency and the Contractor. The NC Division of Purchase and Contract shall give prior approval to any amendment to a contract awarded through that office.

20. **YEAR 2000 COMPLIANCE/WARRANTY:** Vendor shall ensure the product(s) and service(s) furnished pursuant to this agreement ("product" shall include, without limitation, any piece of equipment, hardware, firmware, middleware, custom or commercial software, or internal components, subroutines, and interfaces therein) which perform any date and/or time data recognition function, calculation, or sequencing, will support a four digit year format, and will provide accurate date/time data and leap year calculations on and after December 31, 1999, at the same level of functionality for which originally acquired without additional cost to the user. This warranty shall survive termination or expiration of the agreement.

Appendix A

Streamlined Sales Tax System Business and Technology Models June 1, 2000 Working Draft

This document describes the business and technology models envisioned by the states under the Streamlined Sales Tax System. Under that System, the simplification of state and local sales tax laws is combined with the integration of advanced technology into the sales tax collection process to make the retailer's sales tax collection burden as low as possible. The System will be available to all retailers, regardless of whether they have nexus with a state.

Under the System, the states assume a large share of the responsibility for sales tax administration. They do this by establishing joint certification standards for both a certified service provider (CSP) and a certified automated system (CAS), by designating qualified entities and systems as a CSP and a CAS, and by providing incentives for the use of a CSP or a CAS. The incentives can be monetary compensation or reductions in liability and audit scope.

A retailer can choose to use a CSP or a CAS or can continue its current practices concerning sales tax collection and remittance. Use of a CSP or a CAS is entirely at the discretion of the retailer. Use of a CSP or a CAS, however, benefits a retailer through reduced liability and audit scope. In general, a retailer is not liable for errors resulting from proper use of a CAS and is subject to only a systems check, rather than a traditional audit, on transactions processed with a CAS.

Four business and technology models are envisioned under the Streamlined Sales Tax System. These models are evolving with the development of the System. The vision of the models to date is as follows:

I. Model 1: Certified Service Provider (CSP) as Agent

Description: Under this model, a retailer selects a CSP as an agent to perform all the retailer's sales tax functions. The agent then determines the amount of tax due, pays the tax to the states, and files returns with the states using a CAS. Under the certification process the states are developing, any person that meets the certification standards can be a CSP. The states anticipate that several persons will be able to meet the requirements for a CSP. Consequently, the states expect that a retailer that wants to use a CSP will have several from which to make a selection.

The states will compensate a CSP agent on a per transaction basis, a percentage basis, or some combination of these methods. The amount is currently unknown because the states do not have enough information on this topic. The value of a significant reduction in liability and audit scope for the retailer is also unknown at this time but needs to be considered.

This model is designed for use by retailers that make remote sales and contract with a third party, such as a web hosting service, to perform their order processing and payment functions. It will work for e-commerce transactions as well as other remote transactions. It will also work for retailers that outsource all of their sales tax administration functions but do not outsource their order processing and payment functions. The automated system of the CSP will be seamlessly integrated into the ordering process. The CSP will integrate its system in the customer ordering process so that the CSP can calculate the tax due, remit the tax to the appropriate state, file a return with the appropriate state, and maintain a record of the transaction.

Liability: The CSP agent in this model is liable for tax due with three exceptions. The exceptions are for properly functioning aspects of the certified automated system, errors by the state, and fraud by the retailer. For example, if the states certify an automated system that, at the time of certification, incorrectly calculates the amount of tax due on clothing, the agent is not liable for any tax not collected as a result of this miscalculation because the states made an error in the certification process. Upon discovery of the error, the CSP would have an agreed-upon amount of time to fix the problem so that the correct amount of tax is calculated in the future.

The following items are not included in the three exceptions and the CSP agent is liable for them: failure to remit the amount of tax collected, failure to remit tax on time, failure of the automated system to perform as it was certified to perform, and failure to correct discovered errors within the time allowed. This is not an exhaustive list of items for which the CSP agent is liable.

The retailer in this model is liable for tax due only if the retailer commits fraud. The retailer must provide the CSP agent with accurate information about the products it sells so that the CSP can accurately determine the tax due on the products. Failure of the retailer to provide accurate information to the CSP that results in liability of the CSP for tax is an issue to be worked out between the CSP and the retailer. The states will look to the CSP for the tax due. For example, if a retailer gives an inaccurate description of its products to the CSP so that an item that is taxable is considered exempt, the CSP is liable for tax due on the item.

Audit: The CSP agent in this model is subject to audit by the states and to periodic systems checks. An audit will be done by one state on behalf of all the states. The retailer in this model is not subject to audit by the states unless the states have reason to believe that the retailer is engaged in fraud. A retailer remains subject to audit on purchases for its own use by a state in which it has nexus.

II. Model 2: Retailer Uses Certified Automated System

Description: Under this model, a retailer selects a certified automated system (CAS) to perform only one part of its sales tax administration functions. That part is the calculation of the amount of tax due on a transaction. This entails a determination of whether an item is taxable, at what rate, and whether the purchaser is exempt from tax. A retailer that wants to use a CAS selects among those that are available, establishes an interface with the CAS, and then relies on the CAS to calculate the tax due. An example of this model is the use of a CAS that is on a server and is available for use by numerous retailers. Another example is a CAS that resides on the retailer's system.

Use of a CAS benefits both the states and retailers by encouraging a standardized system. The issue of monetary compensation for use of a CAS has not yet been determined. Other incentives, such as a reduced audit scope are envisioned.

Liability: The person who obtained state certification for the CAS used by a retailer in this model is liable for failure of the automated system to perform as it was certified to perform and for failure to correct discovered errors within the time allowed. This liability will be set out as a condition of certification. The person is not liable for properly functioning aspects of the certified automated system and errors by the state.

The retailer in this model is liable for tax due with two exceptions. The exceptions are failures attributable to the CAS and errors by the state. Thus, the retailer is not liable for errors and omissions arising from features of the CAS that the states had certified as being correct. The retailer is liable for the accuracy of returns and payments.

Audit: The CAS in this model is subject to a periodic systems check. If the systems check reveals a problem, the CAS will be reviewed and tested further. The retailer in this model is not subject to audit on the transactions processed by the CAS unless the states have reason to believe the retailer is engaged in fraud. The retailer is subject to audit on its tax remittance and return filing functions. The states can check to ensure that all taxes collected have been paid and reported. A retailer remains subject to audit on purchases for its own use by a state in which it has nexus.

III. Model 3: Proprietary System as a Certified Automated System

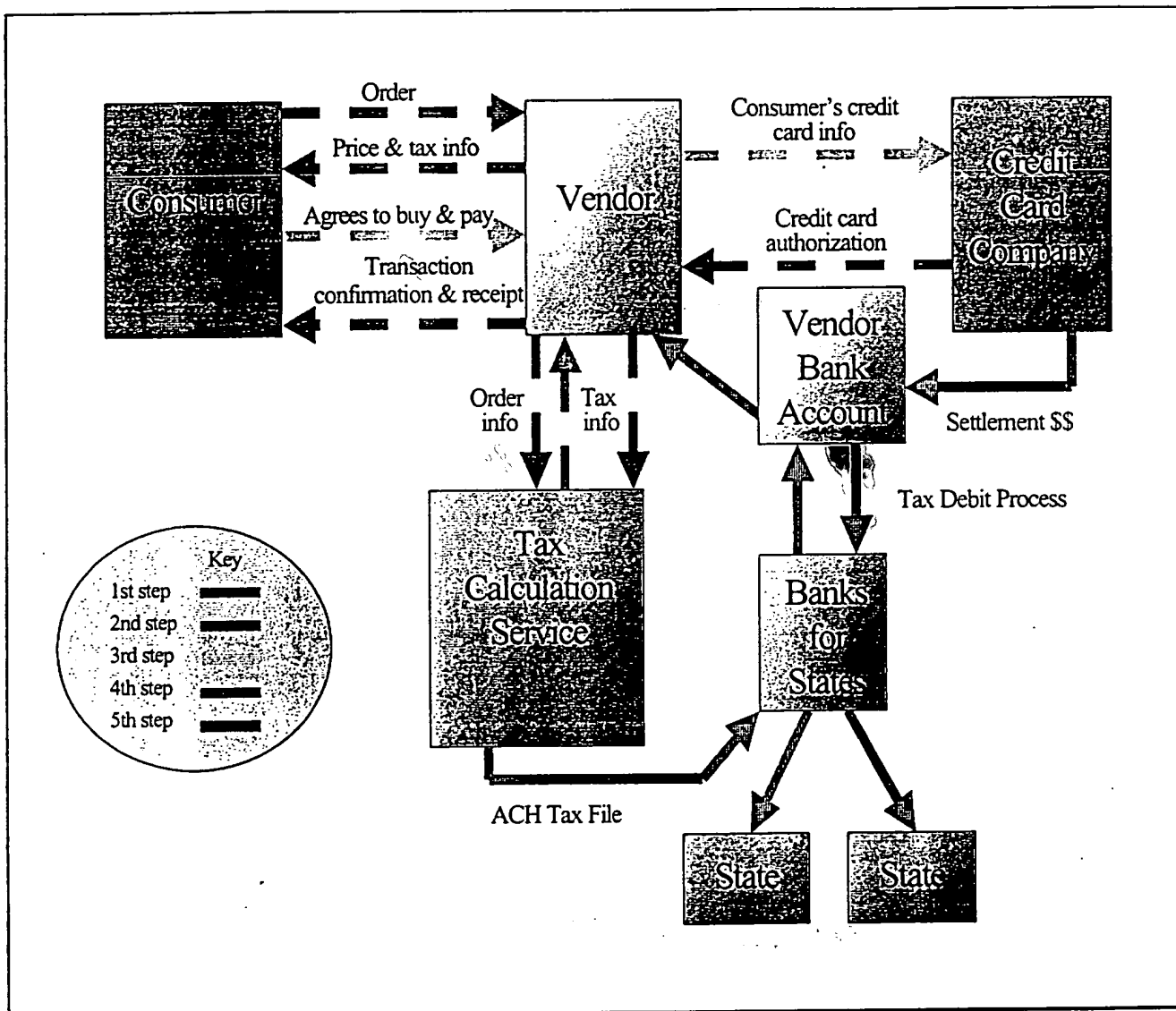
This model is intended to accommodate large retailers with nationwide sales that have developed their own sophisticated proprietary automated sales tax systems. Under this model, a retailer with one of these systems could ask the states to review the system for the purpose of certifying it as a CAS. Once the proprietary system is certified, the retailer would enjoy the same benefits of reduced audit scope and any other benefits that apply to the use of a CAS.

In this model, the retailer is both the person who obtained state certification of a CAS and the retailer. The retailer therefore has the liability of both the CAS provider and the retailer as outlined in Model 2, has the same exceptions from liability as in that model, and has the same audit scope as in that model.

IV. Model 4: Current Practice

This model is the current practice of retailers. As stated earlier, the decision of whether to use a CSP or a CAS is entirely up to the retailer. Retailers that do not find the use of a CSP or a CAS relevant or beneficial to their circumstances can continue to calculate, pay, and report sales tax under their current procedures. These retailers will nevertheless benefit from uniform legislation achieved by the Streamlined Sales Tax System and other simplification efforts.

Appendix B Diagram of Model 1



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